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SUBJECT: SHIZUOKA PREFECTURE EAGER TO HOST FOREIGN BUSINESS

¶1. (SBU) Summary. Shizuoka Prefecture, located between Tokyo and Nagoya is eager to attract foreign direct investment even as it confronts problems with its large population of foreign factory workers. End Summary

¶2. (SBU) Introduction. Shizuoka will roll out the welcome mat for foreign investors. That was the conclusion drawn from meetings with three local U.S. companies and two government entities. In late May Econoff traveled with a Japanese assistant to the Shizuoka Prefecture to gain a broader perspective on the Shizuoka's economy and the prospects for foreign investment. The U.S. companies we visited, all of which are invested heavily in the area, have been very satisfied with their results. The key to the companies' success appears to be implementing Japanese-style business operations and maintaining good relations with the local community.

Shizuoka - Lots to Offer

¶3. (SBU) Shizuoka is attractive to companies because of its convenient location in the center of Japan, close to both the Tokyo and Western Japan areas. Both of its major cities, Shizuoka and Hamamatsu, are reachable in less than one and a half hours. Among Japan's prefectures it ranks tenth in general population and GNP and has a large, well-educated employee pool. The prefecture also enjoys a relatively mild climate with little snow. Shizuoka is highly industrialized and has benefited enormously from manufacturing by Suzuki, Honda, and Yamaha and subcontractors for the Toyota group; the value of Shizuoka's manufactured goods is third highest in the nation, as is its annual per capita income. In addition, Shizuoka University and other institutes of higher learning in the area have been a good source of scientists for research and development-the prefecture is known for its innovative spirit and its progressive R&D.

¶4. (SBU) Shizuoka's expanding economy faces new challenges as Japan's fiscal health returns, however. Government officials with whom we spoke fear an increasing number of factories may leave the prefecture in search of better locations for expansion. As the economy has improved, finding new workers has become more difficult, causing some companies to venture outside the prefecture in search of better conditions. Over 360 of the companies based in Shizuoka have aggressively invested overseas. More than 60% have a presence in Asia, primarily China and Thailand, and 15% have built facilities in North America. Statistics show that these companies are in search of new markets and cheaper labor. At the same time, the prefecture has been actively courting foreign investment, and boasted the largest number of foreign

investment (81 cases) nationwide in 2004, which was accomplished through a series of grants, subsidies and preferential tax treatment, as well as seminars in Tokyo to present Shizuoka as an attractive location for foreign investment. Shizuoka is also trying to diversify its economy into new industries, such as pharmaceuticals, healthcare, optics and electronics, and chemicals.

15. (SBU) Asked about the effect of the possible revision of the Three Town-Planning Laws ("Machidukuri sanpo") on the prefecture, Hisayuki Masuda, director of the prefecture's Business Development Office, said consumers might benefit from large retail stores, but their existence deprived local shopping areas near city centers of their customer base. His impression was that local government had difficulty determining what was best for communities. He was skeptical about whether senior citizens would continue to drive to large retail stores out in the suburbs and pondered whether consumer purchasing habits might change.

16. (SBU) Masuda also noted that the most effective special zone districts (tokkus) in Shizuoka were those that had speeded up the immigration process for foreign scientists destined for research activities in Shizuoka. In addition, the government hopes the Second Tomei Expressway will bring to Shizuoka new business worth an annual 1.5 trillion yen.

Corning's Success: Blending In With Its Environs

17. (SBU) Corning Japan's Shizuoka factory has been highly successful since its completion in 1989. The company is famous for innovations ranging from optical fiber technology to window materials for space shuttles, but the plant near

TOKYO 00003252 002 OF 004

Kakegawa manufactures glass substrates for liquid crystal displays (LCDs) used in televisions and computer monitors. Corning chose Shizuoka because the location keeps the company relatively near its customers in Osaka, Tokyo and Niigata. Similar to Corning's factory in Corning, New York, this factory is not located in a large urban area but rather out in the country, which is a Corning tradition.

18. (SBU) Corning has constantly expanded the factory in proportion to the requirements of its customers and is on the verge of completing a new construction line within the factory premises. Just outside the factory are paddy fields, a school and several houses, all signs that reflect the company's constant efforts to maintain the environment; they have succeeded in keeping their water pollution and gas emission figures lower than the local requirements. As further testament to Corning's good neighborliness, Operations Manager Vaughn Hall told us that during past expansions of the site neighbors had sold the company their houses and then proceeded to buy property and build a new house directly across the street from the plant. In constructing the Shizuoka factory, the company received not only financial support from the local government, but also re-zoning assistance and support in negotiations to purchase land for the factory, a very tricky and cumbersome process. Hall noted, however, that the government financial support was available to the company only one time.

19. (SBU) Corning's factory, which has around 780 workers, is one of the largest employers in the area. New graduates consist of college and high schools graduates as well as post-graduate students. Corning diversifies its labor force by hiring some Brazilians of Japanese descent as contract workers and permanent workers and by encouraging female workers to return to the workplace after their child-care leave. The only economic downturn the company has experienced so far occurred during the 1997-98 Asian financial crisis. Asked to comment on the Second Tomei Expressway, Plant Manager Takashi Sakurai responded that he believes the road will do little to solve traffic problems because the bottleneck in Kanagawa Prefecture remains

unresolved. The company also does not expect to make much use of the new Shizuoka Airport because it is already comfortable using the Kansai Airport in Osaka. The only complaint the company voiced was that tax rates were too high.

NSK Warner A Welcome Addition To the Prefecture

¶10. (SBU) NSK-Warner has been in the Shizuoka Prefecture for over 40 years. The company is a joint operation between NSK, Ltd., a leading company for ball bearings with factories in China, East Asia, U.S, Europe, and Brazil, and BorgWarner, a U.S. company headquartered in Chicago that manufactures automobile engines, automatic transmission, clutches and other components. The subsidiary was first established in 1965 when BorgWarner wanted to penetrate the Japanese market with its automatic transmission technology. It teamed up with NSK Ltd., then Japan's largest bearing maker, because NSK offered an extensive automobile industry network.

¶11. (SBU) Originally located in Kanagawa Prefecture, NSK Warner decided 18 years ago to build a larger factory in Shizuoka for four reasons: its ideal location close to customers in Nagoya and Shizuoka; good access to the Osaka and Tokyo via the First Tomei Expressway; a good labor pool of skilled engineers; and the enthusiastic reception the company received from the Shizuoka government, which supported them in negotiations with landowners to buy real estate for the factory. The prefecture did not offer the company any preferential tax treatment or grants, however.

¶12. (SBU) NSK Warner, the region's largest taxpayer has a workforce that is 95% local. The average age is a very young 35 due to the fact that the company only moved to the area in 1989. The company thus expects that for 25-30 years it will avoid problems associated with the demographic shift in the labor pool. NSK Warner prefers to hire permanent employees; only 10% are contract workers. The company claims it would like to hire more female employees but the industry does not appeal to women because they have to get dirty. Seventy percent of its workforce have high school degrees while 20% are college graduates and 10% hold advance degrees. The factory itself is 100% automated; employees primarily drive forklifts, guide processes, etc. As for foreign workers, the

TOKYO 00003252 003 OF 004

company has very few: two Chinese and a Nepalese in R&D. Asked about community outreach, we were told that NSK Warner had made a large contribution toward the building of a new railroad station nearby but most of its employees continue to drive to work. The company also sponsors a yearly festival to which the neighbors are invited.

Nippon Sherwood Courted By Local Government

¶13. (SBU) Nippon Sherwood started out as a joint operation between the U.S. company Brunswick and the Japanese company Mitsui & Co. Ltd. The shares owned by Brunswick were sold to American Home Products and then acquired by Tyco International Inc. in 1998. Nippon Bussan, which had earlier bought Mitsui & Co's 50% stake, sold it to Tyco in 2002, making the company a 100% subsidiary of Tyco, which also has an office in Japan.

¶14. (SBU) The local city government of Fukuroi approached Nippon Sherwood about building a factory in the area in the early 1970s and supported the company's negotiations with landowners. Nippon Sherwood finds Shizuoka Prefecture to be very convenient for transportation to both the western and eastern Japan, and the mild climate, abundant water, large labor pool, and heavy industrialization also make it very attractive. When the company first built its factory, wage costs were much lower due to the strong dollar, so products were for domestic use only; it was too expensive to export them. Today the factory churns out over 100 different products, all of which are one-time-use, and they continue to be for domestic consumption only because of the high cost of

exporting them. The company complained that it is unable to increase its sales on a purely monetary basis because the reimbursement pricing system requires reimbursements to decline 2% each year.

¶15. (SBU) Nippon Sherwood enjoys strong employee loyalty with turnover of less than one percent. Twenty percent of its employees are college-educated while the remaining 80 percent hold high school diplomas. The factory employs 370 people including 30 in R&D; about 140, or 40 percent, of whom are women. Most female workers are contract workers who return to work part-time once their children have reached school age. The women are treated the same as regular workers in that they receive annual wage increases but they have a yearly renewable contract, which breaks the connection to the labor union. The company is unenthusiastic about employing Brazilian workers of Japanese decent because it requires its employees to have Japanese language reading ability. The company is interested in the construction of the Second Tomei Expressway, but has no enthusiasm for the Shizuoka Airport because it ships many of its components to Thailand, Taiwan, and Vietnam for assembly.

Hamamatsu a Test Case of Japanese Immigration Policy

¶16. (SBU) Hidehiro Imanaka, director of the International Relations Division for the city of Hamamatsu, told us that the area has had a reputation for highly effective engineers since the Second World War. Airplanes used to be manufactured in Hamamatsu, making it a target for U.S. air raids. Industry also has a close association with the local Shizuoka University, making it a center for highly innovative new technologies. Yamaha, Suzuki and Honda are just some of the companies with factories in the Hamamatsu region.

¶17. (SBU) Imanaka told us that the need for foreign workers has increased because of Japan's aging population and the tendency among young workers to dislike factory work due to the long hours in an unclean environment. At this point, Hamamatsu would not survive without its foreign workers, of which around half are Brazilians of Japanese descent, followed by Filipinos and Peruvians. The number of immigrants increased dramatically after the revision of the immigration control law in 2001, which made it possible for Japanese descendents to immigrate with relatively little regulation. Nevertheless, social problems concerning these immigrants continue to crop up. For example, a growing number of immigrant children neglect their education because they lack the Japanese, Spanish or Portuguese language skills to keep up with their studies and the Japanese government is not obliged to school them. As a result, some children are left with little or no education in either language.

TOKYO 00003252 004 OF 004

¶18. (SBU) To address this problem, Peruvian and Bolivian - but not Brazilian - immigrants have established their own schools in Hamamatsu, which are classified as "miscellaneous" as opposed to "religious" by the government to make them eligible for government financial support. The schools only offer eight years of classes, however, one year shy of the Japanese system's nine years. In order for the students to be eligible for university study in Japan, they must spend a ninth year in a Japanese school. In addition, a high percentage of immigrants do not enroll in the national health insurance and pension programs-and the factories also do not contribute. Hamamatsu City has been working to address these issues and will be a role model for other cities facing the same problems if the central government further relaxes regulations on foreign immigrants as part of the solution addressing the shrinking workforce in an aging society. Imanaka called on the central government to produce a national immigration policy instead of leaving local municipal governments to solve each problem as it arises. He noted that given the EPA/FTA negotiations with the Philippines and Thailand, for example, it would be best for

the government to prepare for the influx of immigrants that likely will occur.

Comment

¶19. (SBU) Based on our observations and conversations with the three U.S. companies, the key to their success in Shizuoka is that despite their U.S. ownership, they all look and feel like Japanese companies. During our Corning visit, for example, Plant Manager Sakurai stressed that his Japanese face had been a very important factor in establishing the company in the local community. We also witnessed highly traditional work cultures including employees wearing company uniforms. At Corning, we heard a 10 minute warning bell during the 12:00-1:00 lunch hour. The meeting with Shizuoka government officials was very positive and the government officials were clearly enthusiastic about Shizuoka's prospects and its relative attractiveness compared to other prefectures. Koji Terao, General Manager of the Shizuoka International Business Association, gave us a copy of a brochure prepared by his office to attract foreign investment to Shizuoka. The officials also were interested in the meetings we had held with private companies the day before and were proud that Shizuoka offered a warm welcome to foreign investment.

SCHIEFFER